

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSALS NINE THROUGH FIFTEEN)

Docket No. RM2012-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO COMMENTS OF THE PUBLIC REPRESENTATIVE
(December 9, 2011)

In the interest of clarifying the record, the United States Postal Service hereby responds to the Comments of the Public Representative.¹ The Postal Service addresses the Public Representative's recommendations regarding each proposal at issue in this docket in turn below.

I. Proposal Nine

The Public Representative recommends that the Commission approve Proposal Nine. While the Postal Service obviously agrees, the Postal Service is concerned by part of the Public Representative's reasoning. The Public Representative states:

The PR recommends the Commission accept this method of distributing Inbound International transportation costs *because it does not reduce coverage for this product*, and would provide a more accurate distribution of transportation costs for this product because Inbound Single-Piece First-Class Mail from Canada weighs much less per piece than inbound mail from the rest of the world.²

The purpose of a 39 C.F.R. § 3050.11 proceeding is "[t]o improve the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service's annual

¹ Comments of the Public Representative, Docket No. RM2012-1 (December 5, 2011) ("PR Comments").

² PR Comments, at 2 (emphasis added).

periodic reports to the Commission.”³ A results-oriented approach would conflict with this purpose.

II. Proposal Ten

The Public Representative recommends that the Commission approve Proposal Ten. The Postal Service agrees.

The Public Representative also advises the Commission to “inquire whether revenues collected for UAA [undeliverable as addressed] Parcel Select Mail in FY2009 and FY2010 were transferred to Parcel Post.”⁴ The Postal Service confirms that the FY2009 and FY2010 revenues collected for UAA Parcel Select pieces were assigned to Parcel Post.

The Public Representative also expresses concern over the fact that IOCS transferred UAA Parcel Select costs to Parcel Post in FY2009 and FY2010, but not in FY2008, implying that the code change was undisclosed. The change was fully disclosed. The Postal Service implemented the change in accordance with the Commission’s approval of Proposal Three, Docket No. RM2009-10, in Order No. 339.⁵ The Postal Service initiated Proposal Three to align the assignment of IOCS costs with the assignment of revenues at that time.

III. Proposal Eleven

The Public Representative recommends that the Commission approve the first and second modifications presented in Proposal Eleven. The Postal Service agrees.

³ 39 C.F.R. § 3050.11.

⁴ PR Comments, at 3.

⁵ Order No. 339, Docket No. RM2009-10 (Nov. 13, 2009).

As to the third modification, the Public Representative recommends that the Commission “seek additional evidence affirming the reasonableness of the assumption that twenty-five percent, rather than ten percent, of NSA Express Mail will be delivered on a Regular City Route, rather than on a Special Purpose Route.”⁶ The Public Representative’s recommendation regarding the third modification appears to stem from a misperception of the third modification. The third modification would eliminate the assumption that, for some proportion of Express Mail pieces that have signature waivers, carriers nonetheless seek to obtain signatures. The Public Representative appears to have confused this assumption with a separate assumption that, of the NSA Express Mail pieces that have a delivery time that has been relaxed to the end of the day, the delivery of twenty-five percent of such pieces shifts from Special Purpose Route Carriers to Regular City Delivery Carriers. The latter assumption is not at issue in Proposal Eleven; indeed, it is already part of the current, Commission-approved model.

Therefore, the Public Representative’s recommendation regarding the third modification in Proposal Eleven is inapposite and should be disregarded. Like the first and second modifications, the third modification should be approved.

IV. Proposal Twelve

The Public Representative recommends that the Commission reject Proposal Twelve. The Public Representative’s recommendation is based on a misunderstanding of Proposal Seventeen, Docket No. RM2012-2. The Public Representative appears to believe—incorrectly—that Proposal Seventeen involves a change to mail flows. Based

⁶ PR Comments, at 4.

on this misperception, the Public Representative mistakenly believes that Commission approval of Proposal Seventeen will cause mail flow data that are used as inputs in the Proposal Twelve model to no longer be available, thus rendering the Proposal Twelve model defective.

In reality, Proposal Seventeen addresses operation changes in the Management Operating Data System (MODS) that will make it impossible to continue separately measuring certain productivities. Proposal Seventeen does not concern underlying mail flows or sorting technology. The current mail flows will remain the same regardless of the disposition of Proposal Seventeen.⁷ Proposal Seventeen is therefore not linked in any way to Proposal Twelve. Proposal Twelve is a straightforward correction of a mail flow error in the Standard Mail presort letters mail processing cost model.

The Public Representative is also largely incorrect in asserting that input sub system (ISS) and output sub system (OSS) costs would no longer be available if the Commission were to approve Proposal Seventeen. The actual implication of Proposal Seventeen is only that distinct ISS and OSS productivities will no longer be measurable after pending MODS operation changes are made. However, the aggregate delivery

⁷ The following description may be useful in understanding current mail flows: Nonautomation machinable letters bear no barcodes when presented to the Postal Service, and must therefore be processed through the Remote Bar Code System (RBCS), which applies barcodes to them. The first step in the RBCS system is the input sub system (ISS), which lifts an image of the mail piece. The piece is then processed through the output sub system (OSS), which applies a barcode to the piece. Machinable MAADC and AADC presort letters must therefore be processed through the ISS before any other processing can take place. Given that machinable MAADC letters are not presorted to any degree, the outgoing ISS operation would be the first operation through which such mail would be processed. Machinable AADC letters, however, are presorted to the destinating AADC; the incoming ISS operation is therefore the first operation through which such mail would be processed. The above mail flows will remain regardless of the disposition of Proposal Seventeen.

bar code sorter (DBCS) productivity values will include the workhours and workloads from ISS and OSS activities that formerly were measured in separate MODS operations, and the actual mailflows will not have changed. Under Proposal Seventeen, it will still be possible to estimate costs for ISS and OSS processing of nonautomation machinable letters with the models, just not with distinct ISS and OSS productivities.

Because the Public Representative is incorrect in his understanding of Proposal Seventeen and incorrect regarding the effect of Proposal Seventeen on Proposal Twelve, his recommendation should be disregarded, and Proposal Twelve should be approved.

V. Proposal Thirteen

The Public Representative recommends that the Commission approve Proposal Thirteen. The Postal Service agrees.

VI. Proposal Fourteen

The Public Representative recommends that the Commission accept Proposal Fourteen's new cost models but modify them (with the exception of the Correction of Mailing List and ZIP Coding of Mailing Lists models) to remove waiting time costs and miscellaneous costs. The Public Representative's rationale is that, because the models are for products that can be purchased only as ancillaries to other base products, and because the base products' models already include waiting time costs and miscellaneous costs, adding waiting time costs and miscellaneous costs to the ancillary products' models results in double-counting.

The Postal Service disagrees. The Public Representative's rationale appears to hinge on the misperception that waiting time and miscellaneous costs are attributed to

products on the basis of the number of transactions. In reality, waiting time and miscellaneous costs are attributed to products not based on their relative number of transactions but rather based on their relative accrued window service transaction times. Clearly, adding a Special Service to an underlying product increases the total transaction time beyond what it would have been for the underlying product without the Special Service. Therefore, Special Services should be attributed some measure of waiting time and miscellaneous costs.⁸

Further, there are instances in which a Special Service causes a new transaction that would not have occurred without the Special Service. Consider a customer who would like to send a mail piece without a Special Service, for instance a stamped single-piece First-Class Mail letter. The customer can simply drop the letter into a collection box, thus avoiding the need for a window transaction. Now suppose that the customer decides to purchase a Certificate of Mailing for the letter. The customer now must go to a retail unit and purchase the Certificate of Mailing in a window transaction. Thus, the customer's decision to purchase a Certificate of Mailing has given rise to a new transaction that would not have existed for the letter alone without the Certificate of Mailing.

⁸ Even if the Public Representative's rationale held water, it is unclear why the Public Representative did not, based on that rationale, exclude Caller Service, as Caller Service is not appended to an existing transaction but rather necessitates its own transaction.

The Postal Service submits that the addition of waiting time and miscellaneous costs to the Proposal Fourteen models is appropriate and that Proposal Fourteen should be approved.⁹

VII. Proposal Fifteen

As with Proposal Fourteen, the Public Representative recommends removing waiting time and miscellaneous costs from the Proposal Fifteen cost models because the products covered by these cost models “can only be purchased in connection with the purchase of postage for mailing a mail product.”¹⁰ The Postal Service has demonstrated in its discussion of Proposal Fourteen above why this reasoning is faulty. In brief, waiting time and miscellaneous costs are attributed to products based on their relative accrued window service transaction times, and the addition of a Return Receipt (with the exception of Return Receipt for Merchandise, discussed below) to a transaction clearly lengthens the total transaction time.

Further, to the extent that the Public Representative’s concern about adding waiting time and miscellaneous costs to the Proposal Fifteen models is limited to the

⁹ As a separate matter, it is unclear what the Public Representative meant by recommending that Proposal Fourteen be approved but that waiting time and miscellaneous costs be removed from the models. The only thing that Proposal Fourteen does is add waiting time and miscellaneous costs to the models. There are no other changes at issue in the proposal.

¹⁰ PR Comments, at 10.

Return Receipt for Merchandise model,¹¹ the Postal Service notes that Proposal Fifteen does not propose adding waiting time and miscellaneous costs to the Return Receipt for Merchandise model. The Return Receipt for Merchandise model uses the unit cost of Certified Mail as a proxy, and because Certified Mail is a Cost Revenue Analysis line item, waiting time and miscellaneous costs are already subsumed within its unit cost.

The Public Representative also expresses concern about the consistency of the proposed time estimate for Return Receipt service, which is based on recent fieldwork, with the 8.2 second transaction time for “Other Special Services” from the Docket No. R2006-1 window transaction study. The latter estimate has never been relied upon in the Return Receipt cost models. The time estimate in the current, Commission-approved Return Receipt model is based not on the Docket No. R2006-1 study but rather on models that were developed in 1976 using field study results. In Proposal Fifteen, the Postal Service seeks to replace the results from the original field study with new field study results.

Because the Public Representative’s recommendations regarding Proposal Fifteen stem from a misunderstanding of how waiting time and miscellaneous costs are attributed and a misunderstanding of the transaction time used in the current, Commission-approved Return Receipt model, his recommendations should be disregarded, and Proposal Fifteen should be approved.

¹¹ It is difficult to discern from the second paragraph of the Public Representative’s discussion of Proposal Fifteen whether the Public Representative’s concern regarding waiting time and miscellaneous costs applies to all of the Proposal Fifteen models or just the Return Receipt for Merchandise model. The first and third sentences reference all of the Proposal Fifteen models, but the second sentence, which appears to be a non-sequitur, references only Return Receipt for Merchandise. As noted, Return Receipt for Merchandise is the one cost model to which Proposal Fifteen does *not* add waiting time and miscellaneous costs.

VIII. Conclusion

The Postal Service has demonstrated above that the Public Representative's recommendations regarding Proposals Eleven, Twelve, Fourteen, and Fifteen stem from significant misunderstandings of those proposals and their underlying models. The Postal Service requests that Proposals Nine through Fifteen be approved forthwith, so that they may improve the materials provided in the upcoming Annual Compliance Report.

Respectfully submitted,

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